

**From:** "Ervin Ramos"

**Sent:** 8/29/2005 11:36:00 AM

**To:** <Tom\_Lennox@abercrombie.com>; <Jill\_Swansegar@abercrombie.com>;  
<Adam\_Kessler@abercrombie.com>; <Bruce\_Asbury@abercrombie.com>

**Cc:**

**Bcc:**

**Attachments:** WSJ 8\_29\_05 AF1003.jpg; WSJ 8\_29\_05 AF2004.jpg;

**Subject:** Wall Street Journal August 29 2005 - A&F

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Dear All,

Please find attached to this email the article in today's Wall Street Journal, Monday, August 29, 2005.

Warmest, Ervin - WSJ 8\_29\_05 AF1003.jpg - WSJ 8\_29\_05 AF2004.jpg

**EXHIBIT**

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# Abercrombie Stock Sales Draw Concern

By GREGORY ZUCKERMAN

**D**ISAPPOINTING EARNINGS from Abercrombie & Fitch Co. sent shares of the teen-fashion retailer skidding earlier this month.

But just ahead of the quarterly report came a surge of stock sales by the company's chairman and chief executive, Michael Jeffries. And some

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investors also are questioning whether Abercrombie provided investors with good news about certain apparel,

helping to push the stock price higher, while withholding more downbeat information in the weeks leading up to the financial report and subsequent selloff.

Certainly, the timing of Mr. Jeffries's selling is eye-catching. On July 7, Abercrombie reported better-than-expected sales for the five-week period ended July 2. The day of the sales announcement, the stock traded as high as \$74.10, before closing at a 52-week high of \$73.14.

On the same day, Mr. Jeffries, 60 years old, began selling large chunks of shares. During the next week, Mr. Jeffries sold more than 1.6 million shares at prices between \$70 and \$73.80 a share, bringing in about \$110 million, according to Thomson Financial. He sold an additional 111,100 shares in the following week at almost \$70 a share, reaping almost \$8 million.

In a statement, Mr. Jeffries said: "I sold the shares as part of my ongoing personal financial plan, which naturally seeks some diversification." He added that, "I do not have control over the movement of the stock, nor can I predict how the stock price is going to fluctuate. I can only stay focused on running the business. I continue to hold a substantial equity stake in the company."

The selling turned out to be quite fortuitous for Mr. Jeffries. In early August, Abercrombie shares began to move lower. Then, on Aug. 16, the New Albany, Ohio, retailer surprised Wall Street with a second-quarter profit of 63 cents a share, 43% higher than last year's second quarter, but below the 69 cents a share that analysts had expected. Even though the company boosted its full-year earnings guidance, the stock has since fallen to \$57.39. That is down about 20% from when Mr. Jeffries did his big selling.

As a result, Mr. Jeffries avoided about \$22 million of paper losses by selling 1.62 million shares in July. The sales came from exercising about 1.8 million stock options with strike prices of \$8 and \$23.41. Overall, Mr. Jeffries has sold two million shares this year, netting \$133 million, compared with sales of 600,000 shares last year, 950,000 shares in 2003, and 50,000 shares in 2002.

After selling the two million shares, he now owns 339,000 shares, according to the company. He also holds stock options of around 7.5 million shares, though not all are exercisable. And Mr. Jeffries may be eligible to receive one million shares on Dec. 31, 2008, if he remains employed

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## CEO of Abercrombie Executed Share Sale With Très Chic Timing

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with the company until then.

Abercrombie's shares have risen substantially from a level below \$20 three years ago, encouraging a number of executives to sell some of their shares this

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year, not just Mr. Jeffries. Abercrombie executives note that the company has extensive blackout dates during which executives are prohibited from trading the stock, such as periods before monthly sales figures and quarterly earnings are released, so executives can trade the stock only during 76 days of the year.

But the stock sales stand out because Mr. Jeffries hadn't sold more than 250,000 shares during any week in the past nine years, according to Thomson Financial. His weekly sales have generally been about 100,000 shares, according to securities filings. Indeed, in the week ended Aug. 19, Mr. Jeffries resumed his previous pattern by selling 100,000 shares at \$58.50 each.

"This is substantial selling," says Mark LePrest, senior quantitative analyst at Thomson Financial, who focuses on trading by corporate insiders. "The stock had risen for about a year but his selling wasn't very heavy" until this summer.

Some bulls on Abercrombie say they are unfazed by the stock-selling.

"It doesn't bother us. We see many company executives sell well below where their shares eventually go," says David Keldan, president of Buckingham Capital Management in New York, which held more than one million shares of Abercrombie at the end of the second quarter, and continues to hold the stock.

Meanwhile, in February, Abercrombie adopted a policy of no longer providing quarterly guidance for investors. It will continue to provide monthly sales for its retail chains, which include Abercrombie & Fitch and Hollister Co., as well as annual earnings guidance.

But in its June 2 release, the company added a figure to its monthly statement, telling investors that "Total Company denim sales" had jumped 169% in May. That metric—which hadn't been included in previous releases and wasn't in subsequent statements—came amid investor worries at the time about a glut of high-priced denim at stores like Abercrombie. Analysts say they were told by company officials that the figure was provided as part of an effort to comfort investors, after an analyst raised concerns about the issue.

But some investors now ask why Abercrombie provided a new figure that helped comfort investors, easing the way for the stock to rise, but did nothing to alert investors to the fact that the company's margins would be lower than some expected in comparison to last year's second quarter, or address any other issues that came as surprises for some investors when earnings were unveiled.

"They didn't give a full picture to investors," says Vick Khoboyan, a vice president at hedge fund Willowbrook Asset Management in Los Angeles, whose firm manages about \$28 million and has bet against Abercrombie shares. "They implied that denim sales were going well but they didn't say that margins were lower than some investors expected."

"This was not an effort to manage Wall Street, but it was intended to communicate an item of interest to investors," says Tom Lennox, an Abercrombie spokesman. "Wall Street asked the question about denim on our second-quarter conference call and we responded that we were very positive about denim."